United Nations A/68/273

General Assembly

Distr.: General
5 August 2013

Original: English

Sixty-eighth session
Item 134 of the provisional agenda*
Review of the efficiency of the administrative and financial functioning of the United Nations

Activities of the Independent Audit Advisory Committee for the period from 1 August 2012 to 31 July 2013

Report of the Independent Audit Advisory Committee

Summary

The present report covers the period from 1 August 2012 to 31 July 2013. During the period, the Independent Audit Advisory Committee held four sessions. The sessions were presided over by John F. S. Muwanga (Uganda) as Chair and Adrian Strachan (Jamaica) as Vice-Chair in 2012, and by Joseph Christopher Mihm, Jr. (United States of America) as Chair and Vadim Dubinkin (Russian Federation) as Vice-Chair in 2013. All of the members of the Committee attended each of the four sessions during the reporting period.

Section II of the report contains an overview of the activities of the Committee, the status of its recommendations, and its plans for 2014. Section III sets out the detailed comments of the Committee.

* A/68/150.

13-41963 (E) 300813

Please recycle

I. Introduction

1. The General Assembly, by resolution 60/248, established the Independent Audit Advisory Committee as a subsidiary body to serve in an expert advisory capacity and to assist it in fulfilling its oversight responsibilities. In accordance with its terms of reference (see General Assembly resolution 61/275, annex), the Committee is authorized to hold up to four sessions per year. The Committee has held 23 sessions since its inception in January 2008.

2. In accordance with its terms of reference, the Committee submits an annual report to the General Assembly, containing a summary of its activities and related advice. The present, sixth annual report covers the period from 1 August 2012 to 31 July 2013.

3. The observations, comments and recommendations of the Committee on the effectiveness, efficiency and impact of the oversight activities of the Office of Internal Oversight Services (OIOS) are contained in the body of the present report under section III.C.

4. The Committee is also required to advise the General Assembly on, inter alia, the compliance of management with audit and other oversight recommendations; the overall effectiveness of the risk management procedures and deficiencies in the internal control systems; the operational implications of the financial statements and the reports of the Board of Auditors; and the appropriateness of the accounting practices and disclosure practices in the Organization. The Committee also advises the Assembly on the steps necessary to facilitate cooperation among the oversight bodies.

5. The current report addresses the issues identified during the reporting period as they pertain to the above responsibilities of the Committee.

II. Activities of the Independent Audit Advisory Committee

A. Overview of the sessions of the Committee

6. During the reporting period, the Committee held four sessions: from 11 to 14 December 2012 (twentieth session); from 4 to 6 February 2013 (twenty-first session); from 10 to 12 April 2013 (twenty-second session); and from 1 to 3 July 2013 (twenty-third session). All of the sessions were held at United Nations Headquarters.

7. The Committee functions under its adopted rules of procedure, as contained in the annex to its first annual report (A/63/328). To date, all members of the Committee have a 100 per cent attendance rate at its sessions. All the decisions of the Committee have been unanimous; however, its rules of procedure make provision for members to record their dissent with decisions taken by the majority.

8. At its twentieth session, in December 2012, the members elected Joseph Christopher Mihm, Jr. (United States of America) as Chair and Vadim Dubinkin (Russian Federation) as Vice-Chair for 2013. Additional information about the Committee can be found on its website in all the official languages of the United Nations (www.un.org/ga/iaac/).

9. Since its establishment, the Committee has submitted 15 reports to the General Assembly, 3 of which have been submitted during the current reporting period. These include reports to the Assembly, through the Advisory Committee on Administrative and Budgetary Questions, on the proposed budget of OIOS under the support account for peacekeeping operations for the period from 1 July 2013 to 30 June 2014 (A/67/772) and on the proposed programme budget for internal oversight for the biennium 2014-2015 (A/68/86), as well as the Committee's annual report to the Assembly for the period from 1 August 2011 to 31 July 2012 (A/67/259).

B. Status of the recommendations of the Committee

10. As at 30 June 2013, the Committee had made a number of recommendations in its reports based on its experience and its interactions with and briefings from the various departments and offices.

11. Although it meets only four times per year, typically for three days per session, the Committee has registered important achievements to date, particularly in relation to the operations of OIOS. The Committee follows up on the implementation of its recommendations as a standard agenda item at each session and looks forward to seeing the full effect of the actions taken by OIOS and by management. Some of the significant recommendations made by the Committee during the reporting period relate to:

(a) The need for OIOS to place more emphasis on auditing of mission-based procurement activities given the high level of procurement done at the mission level, and the need to refine its risk-based workplan in order to ensure that it fully captures such high-risk areas;

(b) The recommendation that all three divisions of OIOS finalize their reports, including those of investigation assignments, in a timely manner if such reports are to be of any relevance to decision makers;

(c) The recommendation that OIOS in general and the Investigation Division in particular re-examine their risk assessment processes to ensure that relevant risks (such as those associated with procurement) are appropriately considered and reflected in the workplan;

(d) The recommendation that the Investigation Division undertake a concerted effort to address the extended delays affecting its completion of investigations;

(e) The recommendation that in the process of improving its efficiency and effectiveness, OIOS should avoid the "silo" effect among its divisions;

(f) The need for the Management Committee to ensure that the various departments, including those considered to be in the vanguard of enterprise risk management, embed systematic risk management systems in their operations;

(g) The need for the Secretary-General to undertake a comprehensive assessment of the status of enterprise risk management in the Secretariat.

C. Overview of the plans of the Committee for 2014

12. The Committee undertook its responsibilities, as set out in its terms of reference, in accordance with the scheduling of the sessions of the Advisory Committee on Administrative and Budgetary Questions and the General Assembly. The Committee will continue to schedule its sessions and activities to ensure coordinated interaction with intergovernmental bodies and timely availability of its reports. In a preliminary review of its workplan, the Committee identified several key areas that will be the main focus for each of its four sessions for fiscal year 2014 (see table).

Workplan of the Committee for 2014

Session	*Key focus area*	*Intergovernmental consideration of the report of the Committee*
Twenty-fourth	Review of the 2014 workplan of OIOS in light of the workplans of other oversight bodies	Advisory Committee on Administrative and Budgetary Questions, first quarter 2014
	Proposed budget of OIOS under the support account for peacekeeping operations for the period from 1 July 2014 to 30 June 2015	General Assembly, second part of the resumed sixty-eighth session
	Coordination and cooperation among oversight bodies	
Twenty-fifth	Status of implementation of oversight bodies' recommendations	General Assembly, second part of the resumed sixty-eighth session
	Risk management and internal controls	
	Coordination and cooperation among oversight bodies	
Twenty-sixth	Operational implications of issues and trends in the financial statements and reports of the Board of Auditors	
	Coordination and cooperation among oversight bodies	
	Preparation of the annual report of the Committee	
Twenty-seventh	Workplans of OIOS for 2015	General Assembly, main part of the sixty-ninth session
	Proposed budget of OIOS under the support account for peacekeeping operations for the period from 1 July 2015 to 30 June 2016	
	Review of the enterprise risk management and internal control framework in the Organization	
	Election of the Chair and Vice-Chair for 2015	

13. In the discussion on planning for 2014, the Committee identified the following relevant events that will have an impact on its work activities:

(a) The request of the General Assembly, in paragraph 2 of section III of its resolution 67/258, that the Committee review the practice of publishing audit reports of OIOS and report to the Assembly at the main part of its sixty-ninth session;

(b) The various reform/transformational initiatives that the Organization has embarked on, such as the accountability system, the global field support strategy, adoption of the International Public Sector Accounting Standards (IPSAS) and the enterprise resource planning project (Umoja);

(c) The ongoing responses to the recently concluded external assessment of the various divisions of OIOS.

III. Detailed comments of the Committee

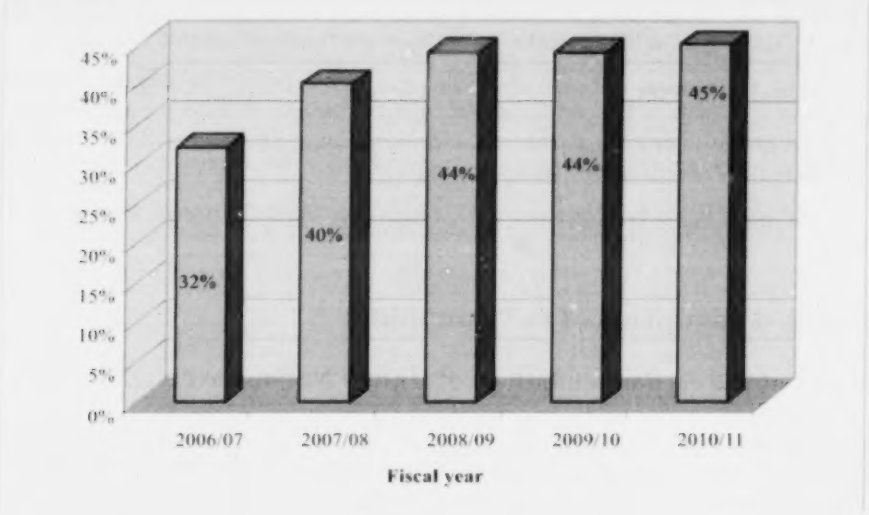
A. Status of the recommendations of United Nations oversight bodies

14. Under paragraph 2 (b) of its terms of reference, the Committee is mandated to advise the General Assembly on measures to ensure the compliance of management with audit and other oversight recommendations. During the reporting period, the Committee reviewed the status of implementation by management of the recommendations of United Nations oversight bodies, as a standard practice.

1. Board of Auditors

15. According to the report of the Board of Auditors on the United Nations peacekeeping operations for the 12-month period from 1 July 2011 to 30 June 2012 (A/67/5 (Vol. II), chap. II), the rate of implementation of the recommendations made for the financial period ended 30 June 2011 in respect of peacekeeping operations was 45 per cent, which is slightly higher than the rate of 44 per cent for the period ended 30 June 2010 (see figure I). The Board noted that the Administration had improved the monitoring of the implementation of its recommendations and reinforced the guidance to the missions on issues concerned. The Board welcomed the progress made while encouraging management to intensify its effort in implementing the remaining recommendations.

Figure I
Rate of implementation of recommendations of the Board of Auditors for peacekeeping operations



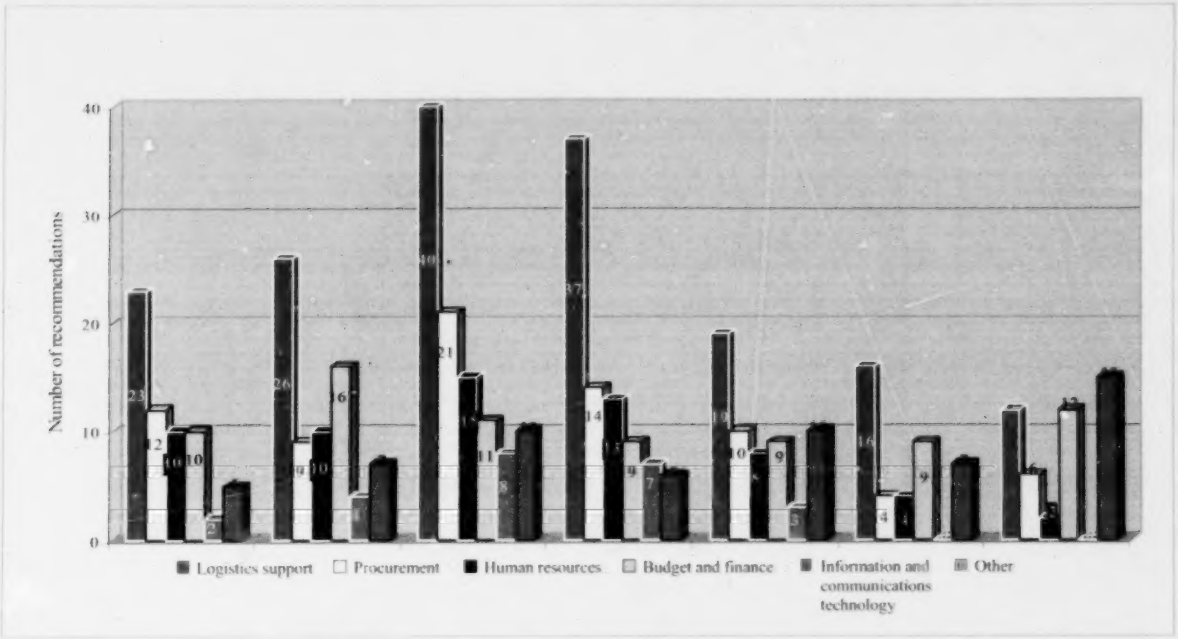
16. **The Committee continues to acknowledge the work of the Management Committee in ensuring that the main recommendations of the Board are implemented, and appreciates that some of the recommendations of the Board were strategic in nature and may take longer to implement. The Committee also acknowledges the steady improvement in the rate of implementation of the Board's recommendations. The Committee, however, believes that there is still room for improvement.**

Thrust areas

17. In paragraph 19 of its report for the period from 1 August 2011 to 31 July 2012 (A/67/259), the Committee reviewed the thrust areas addressed in the various recommendations contained in the reports of the Board of Auditors on peacekeeping operations. The Committee noted that logistics support was the area where the Board had issued the most recommendations over the previous six years, while procurement had shown the largest decline in the number of recommendations. The Committee also noted an overall trend of a declining number of recommendations, but was not sure whether that decline was as a result of improved effectiveness of the internal control framework of the Organization.

18. During the period under review, the Committee followed up with the Board on this and other issues of interest to the Committee. The Board indicated that, as noted in its report on the implementation of its recommendations relating to the biennium 2010-2011 (A/68/163, para. 14), the reduction in the number of recommendations was not a reflection of its opinion on whether management control was improving or not. However, the trend analysis reflects a stabilized level of recommendations (below 50) for peacekeeping operations.

Figure II
Thrust areas addressed in recommendations of the Board of Auditors on peacekeeping operations



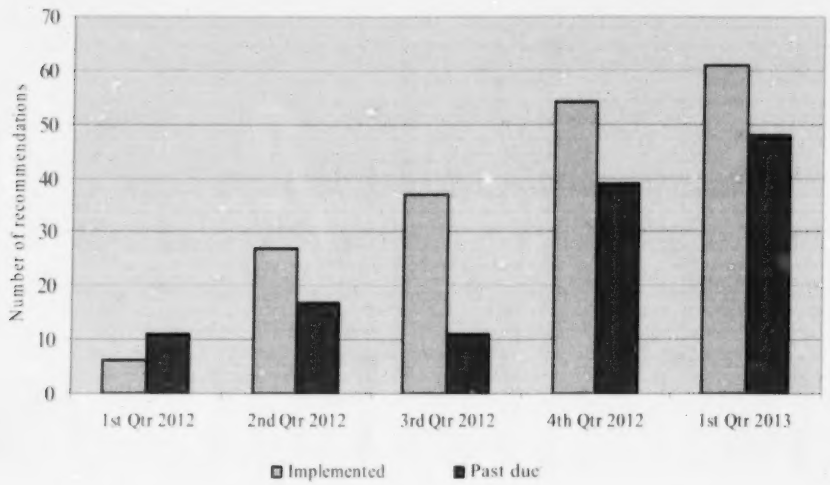
19. Regarding the thrust areas, the 2011/12 fiscal year shows a continued reduction in the number of recommendations pertaining to logistics support and human resources, and increases in the areas of finance and budget, procurement and other (most of the latter relate to the global field support strategy). **The Committee will continue to dialogue with the Board on these and other developments in this regard.**

2. Office of Internal Oversight Services

20. As reported in its activity report for the period from 1 July 2010 to 30 June 2011 (A/66/286 (Part I)), effective 1 January 2012, OIOS changed the way it prepared its audit reports and classified its recommendations. The Committee was informed that the Management Committee had accordingly adjusted the way it monitored outstanding critical OIOS recommendations. In the new system, all critical recommendations are brought to the attention of the Management Committee for follow-up action, and focus is placed on those that are past due. The Committee received quarterly updates from OIOS on the implementation of critical recommendations. Figure III provides a cumulative quarterly trend analysis of the implementation status of critical recommendations issued by OIOS.

Figure III

Cumulative quarterly status of implementation of critical recommendations of the Office of Internal Oversight Services



21. In its report for the period from 1 August 2011 to 31 July 2012 (A/67/259), the Committee reported that during the first quarter of 2012, 6 recommendations (35 per cent) had been implemented and 11 (65 per cent) were past due. Accordingly, the Committee recommended that the Management Committee continue to strengthen the monitoring process, especially in light of the fact that 65 per cent of the critical recommendations targeted for implementation in the first quarter were past due (A/67/259, paras. 20 and 21). As shown in figure III, during the fourth quarter of 2012 and the first quarter of 2013, the number of past due recommendations rose rather significantly. The Committee is not sure whether this development is a result of programme managers setting ambitious target dates or some factors beyond their control.

22. **The Committee notes that management implemented a cumulative total of 61 (56 per cent) of the recommendations (issued in the five quarters) that were due for implementation by the first quarter of 2013. The Committee is concerned that the quarterly number of past due recommendations continues to rise. The Committee therefore recommends that the Management Committee determine the causes of the growth in the number of past due recommendations and ensure that programme managers adhere to the target dates they set for implementing OIOS recommendations.**

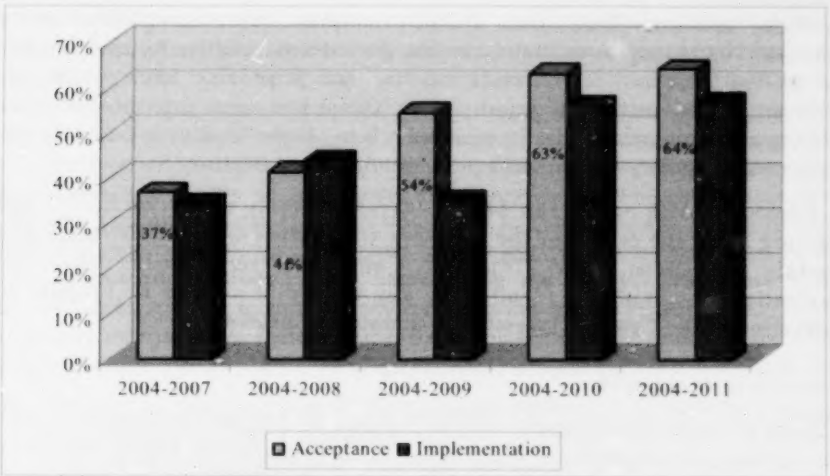
3. Joint Inspection Unit

23. The Committee received an update from the Chair of the Joint Inspection Unit on a number of issues, including the acceptance/implementation rates of the recommendations made by the Unit. The Committee had noted that the overall

acceptance and implementation rates for recommendations of the Unit continued to be a challenge, and that the situation was expected to improve when the anticipated web-based tracking system was in place (A/67/259, para. 22). According to the Joint Inspection Unit, the system was rolled out towards the end of 2012.

24. The Committee noted that, according to the Joint Inspection Unit, the aggregate acceptance rate of the Unit's recommendations by the Secretariat continued to improve, from 63.1 per cent for the 2004-2010 period to 64.2 per cent for 2004-2011. The aggregate implementation rate also improved, from 56.2 per cent for the 2004-2010 period, to 56.9 per cent for 2004-2011 (see figure IV). **The Committee commends management for the effort it has put into improving the acceptance and implementation rates of recommendations of the Joint Inspection Unit.**

Figure IV
Status of acceptance/implementation of recommendations of the Joint Inspection Unit by the Secretariat



B. Risk management and internal control framework

25. Paragraphs 2 (f) and (g) of the terms of reference of the Committee (see General Assembly resolution 61/275, annex) mandate the Committee to advise the Assembly on the quality and overall effectiveness of risk management procedures and on deficiencies in the internal control framework of the United Nations.

1. Accountability system

26. The Committee noted in its previous annual report (A/67/259, para. 28) that the General Assembly, in paragraph 6 of its resolution 66/257, had requested the Secretary-General to develop, as a priority, a clearly defined and well-documented plan that includes clear objectives, responsibilities and a timeline for accomplishing the specific actions he is undertaking to strengthen accountability. The Advisory Committee on Administrative and Budgetary Questions, in paragraph 7 of its report

(A/67/776) on the second progress report of the Secretary-General on the accountability system in the Secretariat (A/67/714), expressed concern that no such a plan had been presented in the report of the Secretary-General. The Independent Audit Advisory Committee received quarterly updates from management on the implementation of the accountability resolution and was informed that management was implementing the resolution and would include a plan in the third progress report.

27. **The Committee welcomes the progress made by management in implementing this and other aspects of the accountability resolution and looks forward to receiving further updates in this regard.**

2. Enterprise risk management

Key risk identification

28. The Committee has noted a steady interest in enterprise risk management in the Organization, which, as pointed out earlier (A/67/259, para. 30), has resulted in the establishment of an enterprise risk management committee (the Management Committee) and the finalization of the enterprise risk management policy framework. The Management Committee has moved a step further by ensuring that some of the previous recommendations on enterprise risk management are implemented as a matter of priority. The Committee was informed that the Management Committee has requested the Under-Secretary-General for Management to identify the top strategic risks of the Organization.

29. **Consistent with paragraph 24 of General Assembly resolution 66/257 and paragraph 32 of the report of the Advisory Committee on Administrative and Budgetary Questions (A/67/776), the Committee recommends that the Organization systematically identify the key risks that need to be brought to the attention of the General Assembly as a matter of priority.**

Risk management champions

30. In its previous annual report (A/67/259, paras. 31-36), the Committee reported on the various "risk management champions" of the Organization. During the period under review the Committee focused its effort on following up with these champions to assess the progress and to identify other emerging champions.

Capital master plan

31. With respect to the capital master plan, the Committee previously reported that the plan had embedded risk management principles right from the beginning of the project and had continued to consider risk management as a dynamic management tool where old/existing risks were identified, eliminated, lowered or elevated. The Committee also reported that a key aspect of the risk management process was that individual risks on the matrix were "owned" by specific individuals, who were responsible for monitoring the risks and for proposing adjustments to the likelihood of such risks and risk mitigation strategies (A/67/259, para. 32).

32. The Committee noted paragraph 29 of the report of OIOS on the in-depth technical construction audit of the plan (A/67/330), where OIOS found some shortcomings pertaining to the risk management process of the project. In this regard, the Committee requested a status update from the Office of the Capital

Master Plan. During the briefing, the Office indicated that it had taken steps to address the recommendations of OIOS, including development of risk quantification analysis, the use of an external consultant to carry out an annual project risk review and the use of a Monte Carlo simulation methodology to assign individual potential costs. The Office further informed the Committee that its risk management goal was to increase the probability and impact of positive events, and decrease the probability and impact of negative events.

33. **The Committee commends the effort the Office of the Capital Master Plan has put into addressing previously identified weaknesses in its risk management process and looks forward to further updates.**

Department of Field Support

34. As earlier reported (A/67/259, para. 33), the Department of Field Support told the Committee that it believed that the size and complexity of its operation made risk an ever-present factor in everything that it and the Department of Peacekeeping Operations did, and that a systematic risk management process was critical.

35. The Committee was further informed that a professional enterprise risk management officer had consequently been appointed to design a risk management programme and accompanying policy document for the Departments of Peacekeeping Operations and Field Support. According to the Department of Field Support, that would culminate in the issuance of formal implementing guidelines that would standardize the practical approach, thus mitigating the risk that missions would adopt a variety of risk management approaches with varying degrees of efficacy. The two departments also noted that risk management would be directly linked to departmental, field operation and project objectives, and make extensive use of scenario planning, while emphasizing the use of quantitative analysis techniques as opposed to simple, subjective scoring. In that regard, the Departments indicated that they are incorporating risk management into their Senior Mission Administration and Resource Training (SMART) programme (A/67/259, para. 34).

36. During the reporting period, the Committee followed up with the Department of Field Support on these initiatives and was informed that the enterprise risk management guidelines had been finalized and approved in December 2012. The Department further noted that the guidelines would provide an agreed approach through which the two departments would implement risk management.

37. The Committee was also informed that a document on the risk management framework for the global field support strategy had been finalized and provided a project-specific example of how the Department of Field Support was introducing a formal risk management method into its planning process.

38. **The Committee appreciates these initiatives and encourages the Department of Field Support to continue its effort to put risk management at the forefront of all its operations. The Committee also looks forward to receiving further updates in this regard.**

Office for the Coordination of Humanitarian Affairs

39. The Office for the Coordination of Humanitarian Affairs informed the Committee that it considered risk identification and mitigation very important aspects of its operation. Accordingly, the Office had started to put in place some

elements of the enterprise risk management system, and was in the process of establishing a comprehensive risk register (A/67/259, para. 35).

40. During the reporting period, the Committee met with the Office to get a status update on its risk management process. The Office informed the Committee that it had adopted a modest approach to enterprise risk management based on international standards (ISO 31000), private sector best practices and lessons learned from other United Nations entities.

41. In this regard, the Office indicated that it had established its own enterprise risk management framework which comprised a corporate risk register, risk management policy instructions and a field office performance framework. The Office also informed the Committee of other risk management initiatives under way, including (a) the security risk assessment at country offices; (b) addressing strategic risks in the context of the corporate governance and management plan; and (c) the Transformative Agenda of the Inter-Agency Standing Committee, which would address other strategic risks that could jeopardize the effectiveness of the humanitarian system. **The Committee welcomes these initiatives and looks forward to receiving further updates in this regard at its future sessions.**

Status of the implementation of enterprise risk management in the Secretariat

42. In its resolution 67/258, the General assembly endorsed the Committee's recommendation contained in paragraph 40 of its report (A/67/259) regarding a comprehensive assessment of the status of enterprise risk management in the Secretariat. The Committee followed up with management on the status of implementation of this and related recommendations. The Secretariat informed the Committee of the progress achieved in establishing the timelines and parties responsible for conducting the assessment. As noted in the report of the Secretary-General (A/67/714, sect. IX), the Secretariat-wide enterprise risk management assessment is to be undertaken by June 2014. **The Committee joins with the Advisory Committee on Administrative and Budgetary Questions (see A/67/776, para. 32) in encouraging the Secretary-General to expedite this process and looks forward to receiving further updates in this regard.**

Risk mitigation and the silo effect

43. During its discussions with management and the risk management champions (see para. 30 above), the Committee noted a few recurring themes. First, risk management is being practised by and embedded in several departments and offices. Second, given the uniqueness of their programmatic activities, most of these departments have come up with their own risk management frameworks and guidelines. Third, the departments that have embedded risk into their operations are generally working independently of one another.

44. Against this background, some departments have raised the concern of "risk transfer", whereby one department's efforts to mitigate a particular risk — say financial risk — have resulted in other departments facing different but equally important risks that may lead to the latter failing or being constrained in achieving their objectives. An example was given where, as a result of the shortcomings of the oil-for-food programme, management went into a phase of tightening internal controls to the point of rendering some programme delivery difficult. Similarly, efforts to mitigate security risk may end up affecting the ability of entities such as

the Office for the Coordination of Humanitarian Affairs to deliver on their mandate. Such examples represent risk mitigation strategies that result in shifting the risk from one department or office of the Organization to another, and this is most likely to occur in organizations whose risk management systems operate in silos.

45. **Given the interdependency of the various departments and offices in achieving the Organization's objectives, the Committee recommends that the Management Committee and the Under-Secretary-General for Management, who is the official responsible for enterprise risk management in the Organization, undertake every effort to ensure a genuinely integrative approach to risk management that looks across the Organization's units to identify and manage risk in a coordinated and comprehensive way. This will be achieved through a concerted effort of breaking down or avoiding silos, in other words, by managing holistically the portfolio of risks facing the Organization.**

C. Effectiveness, efficiency and impact of the audit activities and other functions of the Office of Internal Oversight Services

46. The terms of reference of the Independent Audit Advisory Committee provide for it to advise the General Assembly on aspects of internal oversight (General Assembly resolution 61/275, annex, paras. 2 (c)-(e)). In undertaking its mandate, the Committee has maintained its standard practice of meeting with the Under-Secretary-General for Internal Oversight Services and other senior OIOS officials during its sessions. The discussions have focused on OIOS workplan and budget execution, significant findings reported by OIOS, operational constraints (if any), post incumbency and the status of implementation by management of OIOS recommendations, including the critical recommendations that had not been implemented by management, strengthening investigations and funding arrangements.

1. Workplan and budget of the Office of Internal Oversight Services for 2012-2013

47. The responsibilities of the Committee with respect to OIOS as set out in the terms of reference include the examination of the workplans of OIOS, taking into account the workplans of the other oversight bodies, and advising the General Assembly thereon.

48. The Committee reported its observations and recommendations with regard to OIOS workplans in its report on the proposed budget of OIOS under the support account for peacekeeping operations for the period from 1 July 2013 to 30 June 2014 (A/67/772) and its report on the proposed programme budget for internal oversight for the biennium 2014-2015 (A/68/86).

Value of the services delivered by the Office

49. In its report of 1 March 2013 (A/67/772, para. 11), the Committee recalled Standard 2000 of the Institute of Internal Auditors, which provides that a chief audit executive must effectively manage the internal audit activity to ensure that it adds value to the Organization. In an earlier report (A/63/703, para. 25), the Committee had recommended that OIOS define the value of the service that it delivers to the Organization. Since then the Committee has reiterated this recommendation and has followed up on its implementation. Some of the initiatives OIOS has undertaken to

address this matter have included the introduction of key performance indicators and the introduction of programme impact pathways, or what is also known as the programme logic model.

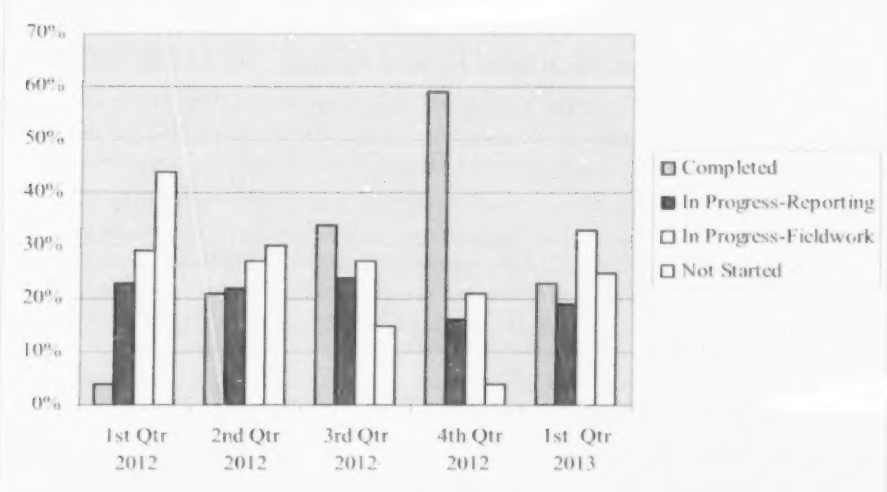
50. **The Committee notes the effort OIOS has made in this initiative. However, the Committee also remains concerned at the slow progress in fully addressing this recommendation.**

Workplan implementation

51. The Committee continued to monitor the implementation of the workplans of the divisions of OIOS and the timelines of reports. In paragraph 33 of its report of 25 August 2009 (A/64/288), the Committee indicated that it considered it important that reports be finalized in a timely manner, as the value of oversight work diminished when reports took too long to complete. The Committee learned, through feedback from OIOS clients and presentations by OIOS, that assignments continue to take a long time to be finalized.

52. In paragraph 46 of its previous annual report (A/67/259), the Committee reiterated its recommendation that the duration and number of audit assignments carried over to following periods should be reduced if OIOS was to improve on the effectiveness of its oversight work. During the reporting period the Committee followed up with OIOS on the implementation of this recommendation, an issue which was also raised during the IAD external quality assessment review of the Internal Audit Division. Figure V below shows the quarterly performance of the Division as far as deliverable assignments is concerned.

Figure V
Status of 2012-2013 deliverable audit assignments



53. As far as the Investigation Division is concerned, the Committee stated in paragraph 46 of its report (A/67/259) that as at 31 May 2012, 40 per cent of all cases for investigation were more than 12 months old and 12.7 per cent were more

than two years old. According to the most recent information provided to the Committee, in the first quarter of 2013 the proportion of cases that were outstanding for more than one year rose to 55 per cent and those outstanding for more than two years fell only slightly to 12 per cent.

54. **The Committee acknowledges the steps OIOS is putting in place, especially with respect to internal audits. However the Committee remains concerned at the lack of progress in improving the performance of the Investigations Division. The Committee therefore recommends that OIOS put in place a concrete plan of action to address the delays in finalizing investigation assignments.**

55. With respect to the budget for OIOS, the Committee made several recommendations in its reports mentioned in paragraph 48 above (A/67/772 and A/68/86). The Committee was informed that most of the resources requested for OIOS under the support account budget for the period 1 July 2013 to 30 June 2014 which the Committee had supported were approved by the General Assembly, with the exception of the redeployment of two investigation posts from Nairobi to Entebbe and UNMIS and the conversion of 37 per cent of the general temporary assistance positions to posts. As far as budget execution is concerned, the Committee in its previous reports had voiced its concern at the low rates of execution, which in turn affected the full implementation of the workplans of the divisions. During the period under review the Committee continued to receive updates from OIOS and noted a general improvement in the budget execution rates.

56. **The Committee, however, is concerned that this improvement has not yet fully translated into improvements in programme delivery, as exemplified by the concerns raised above regarding absence of timely completion and/or excessive carry-over of assignments. The Committee therefore recommends that OIOS enhance its effort to ensure that there is congruence between budget execution and programme delivery.**

2. Vacant posts in the Office

57. In its previous reports to the General Assembly, the Committee had reported on the high number of vacancies in OIOS, as had the Board of Auditors in some of its reports. During its routine meeting with OIOS, the Committee followed up on this matter and was pleased to note continued improvement in the vacancy rates. For instance, OIOS informed the Committee that as at 30 June 2013, the overall vacancy rate was 14 per cent, a slight improvement from the 15.3 per cent reported by the Committee in its previous annual report (A/67/259) and a marked improvement from the 21.5 per cent rate reported the year before that (A/66/299).

58. **The Committee commends OIOS for improving its vacancy situation, an issue which had been a concern of the Committee since 2008, and notes that with improved vacancy rates comes the expectation that workplans will be implemented on a timely basis.**

3. External quality assessments and reviews of the divisions of the Office

Internal Audit Division

59. According to Standard 1312 of the Institute of Internal Auditors, internal audit activities are to undergo an external assessment at least once every five years. In an earlier annual report, the Committee noted that OIOS had engaged the Institute of Internal Auditors to undertake an external quality assessment. The objectives of the review were to assess the conformity of Internal Audit Division practices and processes with its audit manual and with the standards of the Institute of Internal Auditors, to assess the efficiency and effectiveness of the Division in meeting the needs of stakeholders and to make recommendations to improve and streamline the internal audit process (A/66/299, para. 41).

60. In paragraph 51 of its previous annual report (A/67/259, para. 51), the Committee noted that the external assessment had resulted in nine significant recommendations, namely the need for a consolidated audit universe and risk assessment and the need to prepare annual plans based on risk assessment rather than available resources or existing funding arrangement, to expand the information technology audit universe to assure adequate risk coverage, to eliminate excessive duration of audits, to develop an internal audit "charter", to develop a continuing professional development strategy, to revisit the contents of risk assessment engagement reports and to monitor progress by focusing on critical and important recommendations. As a result of those findings, OIOS received a "partially conforms" grade.

61. Over the course of the reporting period the Committee followed up with OIOS on its progress in implementing the recommendations of the external assessment. **During its recent session, the Committee was informed that all of the recommendations except one, concerning the internal audit charter, had been implemented. The Committee welcomes this development.**

Inspection and Evaluation Division

62. In response to the Committee's prior recommendations, OIOS provided the Committee with the final report of the external assessment of the Inspection and Evaluation Division. The Committee was informed that the Division planned to focus on several major initiatives highlighted in the consultant's report, namely improving strategic relevance of the evaluation function; increased use of the work of the Division; improved quality of the work process; strengthening of the communication strategy; development of evaluation capacity; and support for the Secretariat evaluation function.

63. The Committee followed up with OIOS on the status of implementation of the recommendations and was informed, inter alia, that a revised risk assessment had been completed as part of the 2014-2015 workplan; the quality assessment system had been reviewed and revised comprehensively; and work was ongoing with regard to strengthening of the communication strategy and development of the evaluation capacity. **The Committee looks forward to receiving a comprehensive update on the implementation of the remaining recommendations of the review panel.**

Investigations Division

64. With respect to the external review of the Investigations Division, the Committee was informed that 91 recommendations had been issued by the reviewers on matters associated with mandate, organizational structure and reporting. The main findings of the review related to delay in completing investigation assignments; the quality of investigation reports that can meet the high evidentiary standards of the current system of justice; the need to establish the Division as an essential player in the accountability system by addressing high-risk areas, including non-staff matters; and the need to address category I and II cases within the context of the resource constraints.

65. The Division further indicated that it was assessing the feasibility of the recommendations against resource constraints, and that a programme implementation plan would follow. **The Committee recommends that the programme implementation plan take into account the implications of the pending report requested by the General Assembly on strengthening investigations.**

4. Strengthening investigations

66. In its report of 27 August 2010 (A/65/329, para. 24), the Committee recalled that, in paragraph 18 of its resolution 62/247 on strengthening investigations, the General Assembly had requested the Secretary-General to prepare for its consideration and approval, in close cooperation with OIOS, a report providing detailed information on terms of reference with regard to the proposed comprehensive review of investigations in the United Nations.

67. In its subsequent annual report (A/66/299, para. 44), the Committee reported that a task force, chaired by the Deputy Secretary-General, had been established to address the request of the Assembly. The objective of the task force was to review all types of investigations being conducted in the Secretariat; make suggestions on the need to improve systems; examine steps that would be required to implement change; and prepare the terms of reference that had been requested by the Assembly in resolution 62/247.

68. In its report of 6 August 2012 (A/67/259, para. 54), the Committee recommended that the Secretary-General finalize the long-awaited proposed terms of reference on the comprehensive review of investigations in the United Nations. The Committee has since been informed that the task force completed its work and the Management Committee approved, in principle, the proposal to transfer all investigations to OIOS in the long term, as a means of professionalizing and strengthening the investigations function within the Secretariat. That decision was subject to, inter alia, consideration of the full implications of the potential structure and resource implications associated with implementation, including respecting the request of the General Assembly in resolution 62/247. **The Committee welcomes these important developments and looks forward to being informed of further progress in this regard.**

Risk-based work planning

69. With respect to risk-based work planning, the Committee in May 2011 welcomed the fact that OIOS had agreed to incorporate a more proactive and risk-

based approach into its workplan (A/66/85, para. 20). In paragraph 58 of its 2011/12 annual report (A/67/259), the Committee noted that it was not sure whether the low level of procurement-related investigations in the Secretariat was due to improved controls instituted since the establishment of the Procurement Task Force, or failure to report and/or detect fraud, especially among suppliers. The Committee further pointed that the absence of a proactive fraud risk detection system in the Investigations Division made it difficult to be sure that the low rate of procurement investigations was a result of improved controls. That led the Committee to recommend that OIOS include, in the context of its future budget submissions for the Investigations Division, a risk-based workplan for the Committee to review.

70. During the period under review, the Committee followed up with OIOS on the status of implementation of this recommendation and, as reported in paragraph 25 of the Committee's report (A/68/86) OIOS informed that the Investigation Division had established a proactive investigation unit. OIOS also informed the Committee that it had improved its forensic capacity as well as the capacity in procurement-related fraud.

71. **While the Committee welcomes this development, it is concerned with the slow progress regarding this important aspect of its work, and recommends that OIOS demonstrates concrete development in this area in its future workplans.**

D. Financial reporting

72. Under paragraphs 2 (h) and (i) of its terms of reference, the Committee has the responsibility to advise the General Assembly on the operational implications of the issues and trends apparent in the financial statements of the Organization and the reports of the Board of Auditors, and on the appropriateness of accounting policies and disclosure practices, and to assess changes and risks in those policies.

73. During the reporting period, the Committee engaged in discussions with the Board of Auditors, the Under-Secretary-General for Management and the Controller on a number of issues relating to financial reporting. The issues discussed included:

(a) The status of implementation of IPSAS in the United Nations, including recent progress, challenges faced, and the synchronization of the IPSAS timeline and strategy with that of Umoja;

(b) The implementation of Umoja, the interdependence of Umoja with full IPSAS implementation, the progress made following the launch of the Umoja pilot and challenges ahead, including the launch of cluster I slated for October 2013.

74. With respect to the implementations of IPSAS, the Committee was routinely apprised of the progress made in meeting milestones of the project such as the opening balances for the peacekeeping operations (July 2013), the dry runs, finalization of the policy framework and benefits realization. The Controller also noted some challenges that the project faces, including transition and alignment with Umoja; inventory and fixed asset valuation; and the impact of IPSAS financial reporting requirements on the work of the Advisory Committee on Administrative and Budgetary Questions and the Fifth Committee.

75. With respect to inventory and assets valuation, the Secretariat was of the view that a narrow interpretation of IPSAS (especially with regard to inventory valuation) could put the Organization in a position where service/programme delivery could be compromised. The Committee was informed that the Board's position on this subject was not yet aligned with that of the Secretariat. For instance, the Board's position was that all inventories warehoused should be capitalized under IPSAS. However, the Secretariat believes that accurate valuation of inventory in a military-type environment was almost impossible, especially for small parts and even in an environment of standardized systems. Given that attaining 100 per cent inventory valuation may not be achievable in all peacekeeping environments, that IPSAS is not conclusive on the required accounting treatment in this area, and that there is no clear unique path regarding items consumed internally in the rendering of non-revenue producing services, the Secretariat has proposed, inter alia, to anchor the United Nations policy regarding inventory valuation in IPSAS principles and to benchmark against IPSAS-compliant entities. With regard to benchmarking, the Committee was informed that several IPSAS-compliant United Nations entities such as the United Nations Educational, Scientific and Cultural Organization, the World Food Programme and the International Civil Aviation Organization had similar policies as the Secretariat, yet they did not capitalize inventory held for internal consumption.

76. **The Committee acknowledges the dialogue that management continues to have with the Board of Auditors and other oversight bodies in this respect and the intensified collaboration with the Umoja project. The Committee believes that in some instances, especially where IPSAS is silent on an issue, the Secretariat will have to take duly justified management decisions. With respect to the impact of the financial reporting requirements, the Committee agrees with the Board that this is an issue that will have to be ultimately decided on by the Advisory Committee on Administrative and Budgetary Questions and the Fifth Committee.**

77. With respect to Umoja, the Committee held several sessions with the director of the project on the progress thus far. The director informed the Committee that there had been good progress and that the project was back on schedule. The progress was exemplified by the recently concluded "go live" process whereby the Umoja team had managed to successfully launch, on 1 July 2013, its much-anticipated pilot in select missions. The Committee was also informed that in spite of the progress to date, the project remained a high-risk undertaking. For instance, the director informed the Committee that the ability to achieve organizational readiness by adopting all the changes that would be needed as a result of Umoja remained a challenge. **The Committee welcomes the progress achieved in implementing Umoja and calls upon management to continue to identify and manage the key risks to the Umoja project achieving its objectives.**

E. Coordination among United Nations oversight bodies

78. During the reporting period, in addition to its regularly scheduled meetings with OIOS, the Committee met with other oversight bodies, including the Joint Inspection Unit and the Audit Operations Committee of the Board of Auditors. In separate meetings with the Board of Auditors, the Joint Inspection Unit and OIOS, the Committee took note of the positive relationship fostered through the tripartite

coordination meetings of the oversight bodies and the sharing of workplans in an effort to avoid duplication.

79. The Committee was informed that the Board of Auditors coordinated with OIOS in the planning of its audits in order to avoid duplication of efforts and to determine the extent to which the Board could rely on the work of OIOS.

80. During its twentieth session, the Committee and the Board of Auditors continued to exchange experiences and discussed ways to enhance cóoperation and effectiveness without prejudice to their respective mandates. The Committee and the Board also engaged in extensive discussions on the Board's findings on operational implications of the trends in the financial statements and the steps the Board in particular, and the Panel of External Auditors in general, were taking to analyse such trends.

81. The dialogue between the Board and the Committee allowed for the sharing of perspectives on matters of mutual concern and provided a usefu! opportunity for cooperation among United Nations oversight bodies.

F. Cooperation and access

82. The Independent Audit Advisory Committee is pleased to report that it has received the full cooperation of the Joint Inspection Unit, the Board of Auditors, the Office of Internal Oversight Services and senior management in the Secretariat, including the Department of Management, in discharging its responsibilities. The Committee was also given appropriate access to the staff, documents and information it needed to undertake its work. Th< Committee looks forward to continued cooperation with the entities with which it interacts in order to discharge its responsibilities, as set out in its terms of reference, in a timely manner.

IV. Conclusion

83. Within the context of its terms of reference, the Independent Audit Advisory Committee presents the above observations, comments and recommendations, as contained in paragraphs 16, 19, 22, 24, 27, 29, 33, 38, 41, 42, 45, 50, 54, 56, 58, 61, 63, 65, 68, 71, 76 and 77, for the consideration of the General Assembly.